Company A uses 12,000 units of a product in production each year. Presently, this component is purchased from an outside supplier at $9.50 per unit. There has been idle capacity in the factory that could be utilized to make this product. The costs associated with manufacturing the product internally rather than buying it from the outside supplier are…

|  |  |
| --- | --- |
| Direct materials | $3/unit |
| Direct Labor | $3 /unit |
| Variable Overhead | $2 /unit |
| Fixed Overhead (based on production of 8,000 units per month) | $2 /unit |
| Annual salary if hiring a new supervisor to oversee this production | $12,000 |

1. Assuming other things stay the same, at what price per unit from the outside supplier would the company be indifferent (on economic grounds) to buying or making the product?

2. If the company chooses to make the component instead of buying it from an outside supplier, what would be the changes in the company's net income per year